

Two Basic Problems in Business Cycle Analysis

— A Comparative Study —

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1. Any business cycle analysis has to deal with two basic problems; the first is to find out, with due regard to the dual effects of investment, the equilibrium conditions of economic process where there appears no cycle and the second is to show how the real economic process deviates from the equilibrium process shown by the solution of the first problem.

2. In the field of the first problem, D. H. Robertson established already the brilliant monument in his *Banking Policy and the Price Level*, 1926. But now in the post-Keynesian economics, Domar, in his "Capital Expansion, Rate of Growth and Employment," 1946, approaches this problem. His formula, however, can not be a suitable answer to the first problem in business cycle analysis, because it presupposes full employment. But we can get the formula suitable for our first problem by revising Domar's conceptions and adapting them to the first problem in the business cycle analysis.

3. In the field of the second problem of showing the making of the initial deviation of the real process from the equilibrium process, R. F. Harrod, in his *Towards a Dynamic Economics*, 1948, emphasizes that the harmony among many business decisions which may guarantee the realization of a steady rate of growth does not exist in reality, and J. A. Schumpeter emphasized that the entrepreneur, by the innovating action, destroys the basic conditions of equilibrium economy. Paying our respects to both these arguments, we, at the same time, stand by our opinion that the competitive process, inclusive of oligopolistic factor, tends to make the real path deviate

upwards from the equilibrium path and to make boom start if initially the economy is on the equilibrium path; and this is our answer to the second problem here.

4. According to our opinion, the oligopolistic competition among many enterprises is one of the characteristics of competitive capitalism. So the business cycle process developed through the competition has to be asserted to be a process that is characteristic of competitive capitalism.